# New and Used Ideas for State Tax Systems

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### Agenda

#### Areas for consideration of new and used ideas

- I. Administrability
- II. Equity and Fairness
- III. Federal Connection
- IV. Modernization
- V. Revenue Considerations
- VI. Accountability and Transparency

Moving forward

MOVING FORWARD?

state tax notes™

See articles of 3/7/16 and 5/16/16.

## Goals

Help state tax systems reflect ...

- >21st century ways of living and doing business
- > Reflect principles of good tax policy



# I. Administrability

### A. SIMPLIFY COMMONLY ENCOUNTERED RULES

Enable taxpayers to have certainty





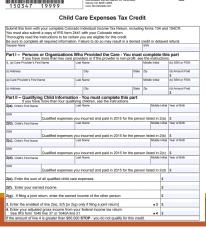
#### **Example**

Nexus checklist to know you definitely have it or don't.

# I. Administrability

### A. Simplify commonly encountered rules

Look for federal computational conformity possibilities



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	DO NOT SEND	Denver CO B	2001-0005 MD 40H
	Child Car	e Expe	enses Tax Credit
			ctions
	e this form to determine if you can claim the Co ild Care Expenses tax credit. You may be able		or if the provider is non-profit, include the statement required to accompany your federal form 2441.
the	credit if you pay someone to care for your dep	endent	Part II- Qualifying Child Information
	<ul> <li>is under age 13. For information about any form or publication listed below, please visit www.</li> </ul>		For lines 2a – 2d, list each qualifying child, their year of
	igibility	mo.yov	birth and their Social Security number. You must also list
	be able to claim the Colorado credit for child co	nce.	the amount of child care expenses for each specific child.
ex ca	penses, you must file federal form 1040 or 1041 nnot claim this credit if you filed federal form 10	A. You 40EZ,	Complete lines 2e through 4 as instructed on the form.  If the amount on line 4 is greater than \$60,000 do not continue because you do not qualify for this credit.
tax	40NR or 1040NR-EZ. If you did not file a federa return, you may still be eligible for the Low Inc ild Care Expenses credit. To claim the low inco u must complete and submit with your Colorado	ome me credit.	If line 4 is \$60,000 or less, enter the amount from line 9 of the IRS form 2441, Child and Dependent Care Expenses, on line 5 of this form DR 0347.
fec foll	teral form 1040 and 2441. You must also meet lowing tests:	all of the	For line 6 enter your tax from your federal income tax return. See IRS form 1040 line 47 or 1040A line 28. If
	The care must be for one or more qualifying p who are identified on federal form 2441. You (and your spouse if filing jointly) must ha		the amount of line 6 is greater than \$0, continue to Part III. Otherwise, if line 6 is \$0 or if you did not file a federal income tax return and your adjusted gross income is
•	income during the year.	e earreu	\$25,000 or less, skip to Part IV.
3.	You must pay child care expenses so you (an spouse if filing jointly) can work or look for wo	rk.	If you have more than four qualifying children, include the statement required to accompany your federal form 2441.
	Qualifying expenses are defined under Section the Internal Revenue Code.	n 21 of	Part III- Child Care Expenses Credit
4.	You must make payments for child care exper someone you (and your spouse) cannot claim		If you had federal tax on line 6 above, use line 4 to determine the decimal amount from Table A. Enter the appropriate amount on line 7.
	dependent. If you make payments to your chill or she cannot be your dependent and must be	e age	For line 8 enter the amount from line 11 of IRS form 2441, Child and Dependent Care Expenses.
	19 or older by the end of the year. You cannot payments to:	make	For line 9 multiply line 8 by the decimal on line 7.
	a. Your spouse, or		Full-year residents should enter amount from this form on
	<ul> <li>The parent of your qualifying person if your person is your child and under the age of 1</li> </ul>		line 9 to form 104CR line 1. If you completed Part III and you were a part-year resident, continue to Part V.
5.	You cannot claim this credit if your federal filin	g status	Part IV- Low-Income Child Care Expenses
	is Married Filing Separate.  You must identify the care provider on this for		If you have no federal tax on line 6 and the amount of line
	rou must identify the care provider on this for a recommended that you fully review IRS Public		4 is \$25,000 or less, use Table B to calculate the credit.  Otherwise, go back to Part III to calculate your credit.
for	eligibility tests and the definition of qualifying in	ncome	For line 11 multiply line 3 by the decimal on line 10.
	d children. All of the information in this form is r d your credit may be denied if it is incomplete.	equired	For line 12 enter the smaller amount of line 11 or the appropriate amount from Table B.
	rt I - Person or Organization Who Provided I e this section to list the name, address and So		Full-year residents should enter amount from this form on line 12 to form 104CR line 1. If you completed Part III and
Se	curity or Federal Employer ID number of the ch	ild care	you were a part-year resident, continue to Part V.
	wider(s) you used. If you are unable to provide		Part V- Part Year Resident Limitation
ca the	cial Security or Federal Employer ID number of the provider, you must show that you attempted the required information by attaching such proof to	to obtain	Complete this part only if you were a part-year resident of Colorado in 2014. Enter the percentage from form 104PN line 34 on line 13 of this DR 0347.
Lis	m. If the total amount paid for the full year of child	care, paid	For line 14 multiple the amount from line 9 or line 12 by the percentage from line 13. Enter this amount on line 1 of form

Credit then goes to Form 104CR (3 pages)

That feeds into line 35 of Form 104.

#### Why not?

Use a multiple of the child and dependent care credit computed on federal Form 2441 (2 pages long)?

Line 35. Enter 20% of line 31 of IRS Form 2441

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Y				

# I. Administrability

### A. Simplify commonly encountered rules

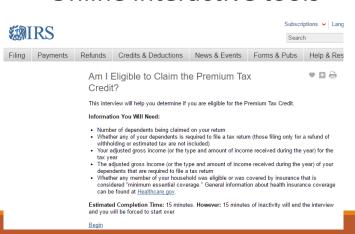
- Merge compliance forms where possible
  - Example Use tax assessment on personal income tax form.
- Be sure compliance activity meets the need
- Ask practitioners for ideas

# I. Administrability

#### B. STREAMLINE AND SIMPLIFY VIA TECHNOLOGY

**Apps** 

Online interactive tools





# I. Administrability

#### C. Allow checklist safe harbor determinations

Example – UK employment status tool

#### The ESI outcome

When you have answered all the questions, the ESI tool will provide it's indication of the worker's employment status. You can rely on the ESI outcome as evidence of a worker's status for tax/NICs/VAT purposes if both of the following apply:

- your answers to the ESI questions accurately reflect the terms and conditions under which the worker provides their services
- the ESI has been completed by an engager or their authorised representative (if the tool has been completed by or on behalf of a worker the result is only indicative)

However, you should download and print or save the PDF bearing the 14 digit ESI reference number from the summary of outcome screen. If the worker's employment status is questioned in the future, HMRC will only be bound by the ESI outcome if this document can be produced.

Tool is an online questionnaire.

https://www.gov.uk/guidance/employment-status-indicator

# I. Administrability

#### D. Avoid new complexities

- Moratorium on new tax breaks
- Make simplification a priority



# II. Equity and Fairness

- A. Find inequities
- B. Determine desired levels of progressivity
- C. Do longstanding justifications for special rules make sense today?
- Examples
  - Sales tax exemption for food
  - Not taxing services
  - Tax breaks that primarily benefit high income or taxpayers who don't need them
  - Shifting from income taxes to sales tax makes the system more regressive

	То	tal taxes paid	d as a percen	tage of incor	ne
City	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
Anchorage, AK	8.7	4.4	3.8	3.2	2.7
Atlanta, GA	13.1	9.1	9.4	9.8	9.3
Columbus, OH	11.9	9.1	9.6	10.0	9.7
Los Angeles, CA	11.0	10.6	10.1	10.3	10.3
Milwaukee, WI	9.9	10.8	10.5	10.8	10.0
New York City, NY	11.8	10.3	10.9	11.7	12.1
Average	11.0	8.4	8.4	8.9	8.6

### III. Federal Connection

Where bound to feds, tell them if it's not working!

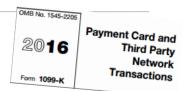
Example – high filing threshold for 1099-K

Watch what Congress is working on that state might use to its advantage

• Examples – repatriation holiday, BEPS activities, corporate integration, VMT tax

#### Let Congress know concerns about tax reform

- Example House Republican Tax Reform Blueprint (6/24/16) suggests moving to consumption tax
  - What is the possible impact on tax-exempt bonds?
  - Fringe benefits offered to gov't employees?
- Example Relevance of loss of low-income housing credit? How can feds still help states?



### IV. Modernization

#### A. Find and Address Out-of-Date Tax Rules

- Changes in personal consumption
- Helping seniors
- Energy incentive conflicts
- Roads and transit
- New economy
- Freelancing







Disclaimer:

Not a real pub.

#### Taxes for **Freelancers**

This publication is designed to assist individuals who might describe themselves as contractors, freelancers, "gig" workers or self-employed entrepreneurs. If you receive Form 1099-MISC or 1099-K, this publication includes information you need to be sure you are a tax compliant business operator. It explains how Kansas taxes apply to your activities. It explains income taxes, employment taxes, sales taxes and local taxes.

Use this guide as a supplement to information about Form K-40, Individual Income Taxes.



#### Also needed for other new economy activities:

- Residential rentals (such as via Airbnb).
- Using virtual currency.
- E-commerce (such as selling via eBay).
- Marijuana operations.

### IV. Modernization

#### B. Use Modern Technology

- See what private sector does.
  - ❖ But unlike private sector, need to help those not connected to the Internet.





Can you use it for tax payments and refunds?





How does Department of Revenue website compare to that of

- Google
- Apple
- Uber
- Bank reaching out to millennials

How easy is it to find the key things users are looking for?

What are your users looking for?

### IV. Modernization

#### C. Have a Futurist Focus

- Gather taxpayer knowledge and ideas
- ❖IT and digital initiatives
- Promote futurist activities and thinking
- Perform regular literature reviews to find new ideas

#### Take a look and continue to track ...

- Tech as solution to ease regulatory compliance.
  - Example https://techcrunch.com/2016/07/11/can-the-airbnb-regulatory-nightmare-be-solved-with-more-tech/
- Uses of the Blockchain
  - Example banks http://fortune.com/2016/06/23/ripple-blockchain-banks/
  - Digital currency https://medium.com/chain-inc/why-central-banks-will-issue-digital-currency-5fd9c1d3d8a2#.c6yo5wsg3
- "Finance in Flux: The Technological Transformation of the Financial Sector" June 2016 conference sponsored by IMF, Federal Reserve and World Bank Group
- White House Fintech conference June 2016
  - https://www.whitehouse.gov/blog/2016/06/10/future-finance-now
- "nearly half of CEOs expect their companies to be transformed into a significantly different entity within the next 3 years."
  - KPMG survey https://home.kpmg.com/content/dam/kpmg/pdf/2016/06/2016-global-ceo-outlook.pdf
- Millennial perspectives and expectations
  - Example http://www.millennialdisruptionindex.com/
- "KC is a smart city"
  - <a href="http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/04/26/what-is-a-smart-city">http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2016/04/26/what-is-a-smart-city</a>

### V. Revenue Considerations

- A. Have Useful Data Readily Available
- Dashboard data approach
- Require assessment of revenue estimates

### V. Revenue Considerations

- B. Find Revenue Lost by Tax Gaps and Unnecessary Tax Expenditures
- Measure tax gap and use that info
- ❖ Make it simple and mandatory to pay use tax

Step 8: Other	Household employment tax. See instructions.  Use tax on internet, mail order, or other out-of-state purchases from	22	.00	Illinois IL-1040
Taxes	UT Worksheet or UT Table in the instructions. Do not leave blank.	23	.00	

Generate revenue through regular review and modification to tax expenditures

### How much spending is in the tax system?

Federal gov't – tax expenditures exceed \$1 trillion which is about same as total discretionary spending.

Oregon legislature reported in 2009:

"The state of Oregon currently spends more on tax expenditures, over \$30 billion per biennium, than it spends on education, healthcare and public safety combined."

http://21stcenturytaxation.blogspot.com/2009/08/tax-expenditures-what-oregon-did-should.html

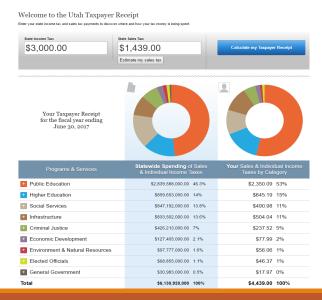
### V. Revenue Considerations

#### C. Avoid Budget Problems

- Avoid earmarking new taxes
- Avoid moving too fast on tax cuts and use budget stabilization funds
- Prepare for marijuana revenue

### VI. Accountability & Transparency

# A. Offer informative taxpayer receipts



http://www.thetaxadviser.com/newsletters/2016/apr/transparency-for-individual-taxes.html

### Messaging to help transparency





Utah State Tax Commission

Utah Individual Income Tax Return

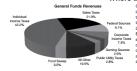
All State Income Tax Dollars Fund Education

2015 TC-40

# Simple data to help transparency



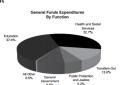
#### Where the Fiscal Year 2015 Dollar Came From



serental Funda revenues locitated (\$3.6.6.17 lottlick in linical space 2015). The pages source of revenue to the General Fundament and several linicome as with mostlying 647.54.53 billion accounting to 42.2% of the balls Asias 15% of the balls Asias 15% of the balls Asias 15% of the balls of North major sources included infected invented of \$3.331 billion (\$1.5%), corporate income taxes of \$2.086 billion (\$7.5%), billion \$5.331 billion (\$1.5%), corporate income taxes of \$2.086 billion (\$7.5%), billion \$1.5570 billion (\$2.5%), and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%), and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%), and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%), and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%) and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%) and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%) and public utility taxes of \$5.006 billion (\$2.5%). And public utility taxes of \$5.006 billion (\$2.5%) and public utility taxes of \$5.006 billion (\$2.5%). And taxes taxes

#### low the Fiscal Year 2015 Dollar Was Spent

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Page 15 of 16 page II
How the Fiscal Year 2015 Lottery Dollar Was Spent

1040 instruction book.

Control of the State Comproller, Illinois billion in focal year

Control of the State Teasury todaled \$1.580 billion in focal year

2016. Of the total \$1.580 billion in focal year



occording to the records of this State Compriseder, Illinois lottery revenues considered to the control of the state of the control of the c

### VI. Accountability & Transparency

- B. Include and publicize tax expenditures in the budget report
- C. Be sure tax incentives include accountability measures
- Specific goals, approvals, monitoring, clawbacks, sunsets, public disclosure, assessment, etc.

### How to analyze tax expenditures

#### TAX EXPENDITURES: BACKGROUND AND EVALUATION CRITERIA AND QUESTIONS

Tax expenditures are provisions, such as special credits and deductions, that reduce taxpayers' tax liability. If well designed and implemented, tax expenditures can provide incentives for taxpayers to engage in particular activities or adjust for their ability to pay taxes. However, tax expenditures represent a substantial financial commitment—if Department of the Treasury estimates are summed, an estimated \$1 trillion in revenue was forgone for fiscal year 2011. Since 1994, GAO has recommended greater scrutiny of tax expenditures. This guide (GAO-13-167SP) describes criteria for assessing tax expenditures and develops questions, as summarized below, that Congress can ask about a tax expenditure's effectiveness.

1 What is the tax expenditure's purpose and is it being achieved?

• What is the tax expenditure's intended purpose?

• Have performance measures been established to monitor success in achieving the tax expenditure's intended purpose?

• Does the tax expenditure succeed in achieving its intended purpose?

• Does the tax expenditure generate not benefits in the form of efficiency gains for society as a whole?

GAO, Tax Expenditures: Background and Evaluation Criteria and Questions, 2013

- See summary table included with these materials; see full report for details
- http://www.gao.gov/assets/660/650371.pdf

#### Tracking tax expenditures - Nevada

"a tax expenditure is created when a tax is imposed but some group, business or individual is relieved from paying the tax or a portion of the tax. Pursuant to NRS 360.137 "tax expenditure" means any law of this State that exempts, in whole or in part, certain persons, income, goods, services or property from the impact of established taxes, including, without limitation, tax abatements, tax credits, tax deductions, tax deferrals, tax exemptions, tax exclusions, tax subtractions and preferential tax rates."

#### 7 Categories Identified:

- 1) Abatement
- 2) Subtraction
- 3) Credit
- 4) Deduction
- 5) Exclusion
- 6) Exemption
- 7) Preferential rate

http://tax.nv.gov/uploadedFiles/taxnvgov/Content/TaxLibrary/Tax\_Expenditure\_Report\_2013-2014.pdf

### Nevada approach to accountability

NRS 360.137 Duty of Executive Director to submit tax expenditure report; contents; requests for information.

- On or before November 10 of each even-numbered year, the Executive Director shall submit a tax expenditure report to the Governor and the Director of the Legislative Counsel Bureau for transmittal to the Legislature and the appropriate interim committee or committees of the Legislature.
  - 2. The report required by subsection 1 must provide, for each tax expenditure:
  - (a) A description of the tax expenditure;
  - (b) The year in which the tax expenditure was enacted:
  - (c) The purpose for which the tax expenditure was enacted;
  - (d) A summary of any amendments to the tax expenditure since it was enacted;
  - (e) To the extent that pertinent information is available, estimates of:
- (1) The fiscal impact to this State and local governments of the tax expenditure during each fiscal year of the biennium in which the report is prepared;
  - (2) The number of taxpayers receiving benefit from the tax expenditure; and
  - (3) The revenue that would result from repeal of the tax expenditure; and
  - (f) A statement of:
    - Any pertinent information which is not available to prepare the estimates required by paragraph (e); and
    - (2) The reasons for the unavailability of that information.

# Nevada – estimated "cost" of 243 tax expenditures

Fiscal year 2014

	Number in Category Who	
Expenditure Category	Benefit from Expenditure	Expenditure Amount
Abatement	951,693	\$197,661,644.87
Subtraction	71,681	\$18,383,243.20
Credit	237	\$36,522,038.33
Deduction	120,296	\$466,545,009.24
Exclusion	30	\$469,626.95
Exemption	384,815	\$783,942,357.71
Preferential Tax Rate	67	\$6,165,676.41
	Total Expenditure amount	
	for 2014	\$1,509,689,596.71

Needs context within overall budget and tax collections.

Tax Ty						T-0.1
Lax IV	4 0 1 2 3 4		1233		1156	
T CATALLY		-		CHI CH	000	L CALAN

Expenditure Name: Textbooks sold within Nevada System of Higher Category: Exemption Education-University of Nevada Las Vegas.

Agency: Department of Taxation

Description: The gross receipts from the sale of textbooks sold within the University of Nevada System are

exempted from the taxes imposed by this chapter.

Year Enacted: 1991 Sunset Date: None

Purpose: Legislative intent not defined in Statute.

Who Benefits: Students and facility members within the Nevada System of Higher Education.

NRS: 372.287

Summary of [63.1:397:1955]—(Added in 1991. Proposed by the 1989 Legislature; adopted by the people Amendments: at the 1990 general election, effective January 1, 1991. See Statutes of Nevada 1989, p. 821.)

Fiscal Year 2013 Expenditures					
Beneficiary Category	# Receiving Benefit	<b>Expenditure Amount</b>			
Other	27848	\$543,415.84			
Fiscal Year Total:	27848	\$543,415.84			
Fiscal Year 2014 Expenditures					
	Fiscal Year 2014 Expenditures				
Beneficiary Category	Fiscal Year 2014 Expenditures # Receiving Benefit	Expenditure Amount			

Tax Type: Property

Expenditure Name: Partial abatement of certain property taxes for

buildings or structures that meet certain standards

under Green Building Rating System.

Agency: Department of Taxation Department: Local Government Services

Description: Taxes on qualifying property is abated for a duration of not more than 10 years and in an

amount which varies with the Leadership in Energy and Environmental Designs (LEED) level of

Category: Abatement

certification.

Year Enacted: 2007 Sunset Date: None

Purpose: Legislative intent not defined in Statute.

Who Benefits: Qualifying property.

NRS: 701A.110

**Summary of** Added to NRS by 2007, 3375; A 2009, 988; 2011, 1654, 2067, 3474; 2013, 3186, 3197

Amendments:

Fiscal Year 2013 Expenditures						
Beneficiary Category	# Receiving Benefit	Expenditure Amount				
Business	39	\$5,582,719.91				
Fiscal Year Total:	39	\$5,582,719.91				
Fiscal Year 2014 Expenditures						
	riscar rear 2014 Experiarear	63				
Beneficiary Category	# Receiving Benefit	Expenditure Amount				
Beneficiary Category Business						

# Areas for new and used ideas

- I. Administrability
- II. Equity and Fairness
- **III.Federal Connection**
- IV. Modernization
- V. Revenue Considerations
- VI.Accountability and Transparency

Other areas?



